

US Army Corps of Engineers

Activity Based Costing Program Implementation Plan

1. Purpose. The purpose of this plan is to establish direction for the enhancement of project and program cost management in the US Army Corps of Engineers (USACE), using activity based costing (ABC) where appropriate, to drive continuous cost reduction and productivity improvement. This cost management approach will supplement existing and planned USACE cost of doing business management approaches.

2. The Strategic Context.

a. The Department of Defense (DOD) initiated its current drive to establish project and program cost management in July 1997 when, as part of the National Performance Review, the Secretary of Defense established a DOD Acquisition Year 2000 goal to define requirements and establish an implementation plan for cost management.

b. On 9 July 1999, the Under Secretary of Defense for Acquisition and Technology directed the Secretaries of the Military Departments to aggressively pursue project cost management implementation in maintenance depots and anywhere else it could be expected to provide improved cost management.

c. In response, on 10 November 1999, the Secretary of the Army issued the *Army Strategic Plan for Implementing Cost Management/Activity Based Costing* to implement CM/ABC in eleven major business areas including base operation.

d. This plan provides for specific project cost management in the **military construction management** and **USACE installation support** business areas, as directed by the Office of the Assistant Chief of Staff for Installation Management (ASCIM), in the *Base Support Cost Management/ABC Implementation Plan*, dated 12 May 2000 (see web site @ <http://www.ceac.army.mil/web/default.html>).

e. Improving cost management and the accuracy of cost information are linked to the *Corps Vision* goal of revolutionizing effectiveness and improving the efficiency of business processes across all USACE programs.

3. Concept of Operation.

a. In May 2000, HQ USACE initiated a study of military project-based supervision and administration (S&A) costing. The one-year test will operate during the period December 2000 to June 2002.

b. In conjunction with this study, one of the test districts will employ an ABC

model for military projects. After being trained in the software use and capabilities, the prototype district will integrate their business processes into ABC to analyze and recommend the feasibility of implementing ABC Corps-wide.

c. Selection of an ABC model will then be exported to S&A project test districts with MILCON programs for production test and proof of concept during the period Oct 2001 to Sep 2002.

d. Full MILCON Corps implementation is targeted for Oct 2002.

e. The Corps will determine further program implementation in Sep 2003.

4. Processes and Systems.

a. Military Construction Management Business Processes. The Corps formed a team in FY99 to examine construction management business processes across all USACE programs. The team found that the construction management services provided by the Corps can be segregated into nine specific S&A business processes for all district organizations that charge to the S&A account (the Planning and Design (P&D) account is not part of this test).

(1) Fiscal Management - USACE division, districts, and field involvement in preparation of the annual operating budget and management of income and expense costs in the Revolving Fund.

(2) Contract Submittal Management - Government review and/or management of contract submittals.

(3) Quality Management - Government participation in the quality management (QM) process (includes safety issues).

(4) Contract Modification and Change Order Management - Government effort with modifications, change orders, value engineering change proposals, and claims.

(5) Progress Payment Management - Government processing of contractor progress payments.

(6) Completion, Transfer, and Closeout Management - Government actions with completion, transfer, contract closeout, and warranty management.

(7) Field Engineering Management - Non-QM and non-modification-related field engineering, including requests for information.

(8) Project Funds Management - District and field funds management.

(9) Contract Claims Management - Government processing of a contractor's claim.

b. Unknown Costs at Time of Award. Costs that are not available at time of award may be factors that affect test results and should be carefully scrutinized in regard to test results. These costs include bid protest, cost and time modifications, liquidated damages, value engineering change proposals, additional engineering services during construction, alternate disputes resolutions, claims, warranty disputes, punch list deficiencies, default, and A-E liability.

c. Project Quality. Current district improvement processes may be integrated into ABC and analyzed. These processes include the following:

- (1) External Audits
- (2) Internal Reviews and Inspections
- (3) Quality Assurance
- (4) Lessons Learned
- (5) Feed Back Program
- (6) Partnering with Contractor
- (7) Partnering with Customer/User
- (8) Project Delivery Team
- (9) Customer Evaluations

d. Implementation of Improvement Processes. The Corps recently completed a study to improve construction management business processes and directed implementation of the following study recommendations that may also be considered in the development of the prototype:

- (1) Develop primer for time and other charges to S&A account.
- (2) Reduce number of submittals requiring government approval.
- (3) Establish regional construction management (CM) contracts.
- (4) Review and improve recruitment and other personnel action support.
- (5) Develop flexible workforce model.
- (6) Evaluate districts' construction management practices against validated CM business processes.
- (7) Review procedures for full and correct implementation of Davis Bacon requirements.
- (8) Encourage resident engineers to control contracted CM support.

5. Roles and Responsibilities.

a. Headquarters, USACE.

(1) Office of the Deputy Commanding General, Military Programs. The project manager (PM) for implementation of ABC for the Corps of Engineers, will be located within the Directorate of Military Programs, Program Management Division. The PM will develop the implementation plan, and coordinate all tasks related to the design sessions, training, and prototype model, including contract actions. After the proof of concept has been completed in September 2002, and the results shall be reported to the

USACE Board of Directors (BOD) for a final decision. At this time the PM function may be transferred to an ABC Center of Expertise (to be established) for implementation and ongoing operation of the program within the Corps of Engineers.

(2) Office of the Deputy Chief of Staff for Resource Management. The ODCSRM and the USCACE Finance Center will provide ABC model development guidance for ensuring locally-developed ABC models complement the Corps of Engineers Financial Management System (CEFMS).

b. An ABC steering committee composed of business area managers, operational managers, and other individuals and organizations supporting the ABC program will provide valuable communications throughout the Corps during the ABC proof of concept phase. This committee will serve as a communications center to share lessons learned and to share the results of the prototype model analysis. Communications will most likely be in the form of a central ABC web site. The PM will chair the ABC steering.

c. At each region, division, district, laboratory, field operating activity, or center, at least one individual will be the model custodian, responsible for keeping the ABC models, updating them as necessary, assigning attributes for use in providing data at the corporate level, facilitating model changes, training operational managers in the use of model reports, and supporting the operational managers in making the best use of activity information. Training, software and the model custodian costs will be funded by HQUSACE.

d. After the proof of concept has been completed in September 2002, an ABC Center of Expertise may be assigned responsibility to assist operational managers to implement ABC throughout the Corps of Engineers. The Center will provide an ongoing training program for operational managers; will maintain the corporate activity dictionary; and will provide expertise in activity modeling, model analysis, and activity based management to operational managers.

6. Implementation Schedule.

Milestone	Event
May 00	Initiate a study of military project-based S&A costing.
Dec 00 – Jun 02	One-year test of ABC model at one district.
Oct 02 – Sep 03	ABC model exported to S&A project test districts for production test.
Sep 03	Determine further program implementation.

7. **Project Manager.** The project manager for implementation of ABC is Robert Perrine (CEMP-MP) at (202) 761-1260.